

## FEDERAL RESERVE SYSTEM

Turkiye Is Bankasi, A.S.  
Ankara, Turkey

### Order Approving Establishment of a Representative Office

Turkiye Is Bankasi, A.S. (“Bank”), Ankara, Turkey, a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under section 10(a) of the IBA (12 U.S.C. § 3107(a)) to establish a representative office in New York, New York. The Foreign Bank Supervision Enhancement Act of 1991, which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish a representative office in the United States.

Notice of the application, affording interested persons an opportunity to submit comments, has been published in a newspaper of general circulation in New York, New York (*The New York Times*, January 20, 2000). The time for filing comments has expired, and the Board has considered the application and all comments received.

Bank, with total consolidated assets of approximately \$14.3 billion,<sup>1</sup> is the second largest private banking organization in Turkey. Bank was established in 1924. Bank’s two largest shareholders, its employee pension fund and a political party, respectively hold 45 percent and 28 percent of Bank’s shares. The remaining 27 percent of Bank’s shares are publicly traded and widely held, with no shareholder controlling more than 5 percent of shares.

Bank engages in retail and commercial banking and other financial activities, including insurance and reinsurance, investment banking, leasing, and factoring,

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<sup>1</sup>Data are as of fiscal year ending December 31, 1999.

directly and through its bank and nonbank subsidiaries. Outside of Turkey, Bank has branches in the United Kingdom and northern Cyprus, and a subsidiary bank in Germany (which has branches in The Netherlands and France). Bank presently has no direct or indirect operations in the United States.

The proposed representative office would act as liaison with existing and prospective customers of Bank. Staff of the office would conduct market and industry research, assemble credit information, and visit with representatives of various government departments and agencies.

In acting on an application to establish a representative office, the IBA and Regulation K provide that the Board shall take into account whether the foreign bank engages directly in the business of banking outside the United States, and has furnished to the Board the information it needs to assess the application adequately. The Board also shall take into account whether the foreign bank and any foreign bank parent is subject to comprehensive supervision or regulation on a consolidated basis by its home country supervisor (12 U.S.C. § 3107(a)(2); 12 C.F.R. 211.24(d)(2)).<sup>2</sup> In addition, the Board may take into account additional

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<sup>2</sup>In assessing this standard, the Board considers, among other factors, the extent to which the home country supervisors: (i) ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide; (ii) obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise; (iii) obtain information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic; (iv) receive from the bank financial reports that are consolidated on a worldwide basis or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis; (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. These are indicia of comprehensive, consolidated supervision. No single factor is essential, and other elements may inform the Board's determination.

standards set forth in the IBA and Regulation K (12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)). The Board previously has stated that the standards that apply to the establishment of a branch or agency need not in every case apply to the establishment of a representative office, because representative offices do not engage in a banking business and cannot take deposits or make loans.<sup>3</sup>

With respect to home country supervision of Bank, the Board has considered the following information. Bank is supervised primarily by the Turkish Undersecretariat of Treasury and Foreign Trade (the “Treasury”), through its Banking Directorate and the Board of Sworn Auditors (“Sworn Auditors”), as well as by the Central Bank of Turkey (“Central Bank”). The Treasury serves as Bank’s primary home country supervisor. Both the Treasury and the Central Bank have stated that they have no objection to Bank’s establishment of the proposed representative office. The Board previously approved an application involving another bank in Turkey,<sup>4</sup> and Bank is currently supervised by the Treasury and the Central Bank on substantially the same terms and conditions as the other Turkish bank;<sup>5</sup> however, a recently enacted banking law, described below, will result in

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<sup>3</sup>See 58 Federal Register 6348, 6351 (1993). *See also Banco de la Ciudad de Buenos Aires*, 85 Federal Reserve Bulletin 647 (1999); *Agricultural Bank of China*, 83 Federal Reserve Bulletin 617 (1997); *Citizens National Bank*, 79 Federal Reserve Bulletin 805 (1993).

<sup>4</sup>See *Turkiye Vakiflar Bankasi, T.A.O.*, 81 Federal Reserve Bulletin 313 (1995).

<sup>5</sup>In brief, Bank currently is required to submit periodic reports and financial statements to the Treasury or the Central Bank providing information on, among other things, capital adequacy, credit exposures, and affiliate transactions. Bank is also subject to examination of head office and branches by the Treasury, through Sworn Auditors. The Sworn Auditors review Bank’s capital adequacy, asset quality, managerial resources, and compliance with applicable banking regulations.

changes to the supervisory structure.

In addition to information previously considered by the Board in connection with the prior application by a Turkish bank, the Board has taken into account new information on the Turkish bank supervisory system. A banking law passed in June 1999, still in the process of being implemented, is intended to address certain supervisory gaps and to provide a more comprehensive framework for the regulation and supervision of Turkish banks. Under it, the bank regulatory and supervisory functions of the Treasury and the Central Bank are being transferred to a newly created government entity, the Banking Regulation and Supervision Agency (“BRSA”). In addition, the law requires banks to establish comprehensive internal audit, risk control, and management reporting systems, and to employ an adequate number of internal auditors. The law also increases the minimum capitalization required of banks and creates new rules regarding large exposures of banks that parallel directives of the European Union. Amendments to the banking law, passed in December 1999, provide for increased transparency and independence of the BRSA, strengthen prudential regulations, and provide tools to improve the resolution of financially weak banks. During 2000, the BRSA is expected to issue new accounting standards for financial disclosure, adopt capital adequacy standards addressing market risk, and establish improved internal risk management requirements.

Based on all the facts of record, which include the information described above, the Board concludes that factors relating to the supervision of Bank by its home country supervisors are consistent with approval of the proposed

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The Treasury and the Central Bank each have enforcement powers over Bank. In addition, Bank’s annual internal audit reports are forwarded to Turkish authorities, and external audits are conducted of its financial reports.

representative office.

The Board has also determined that for purposes of the IBA and Regulation K, Bank engages directly in the business of banking outside of the United States. Bank has provided the Board with information necessary to assess the application through submissions that address the relevant issues.

The Board also has taken into account the additional standards set forth in section 7 of the IBA and Regulation K (*see* 12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)). As noted above, the Treasury and the Central Bank have no objection to Bank's establishment of the proposed representative office. The Board also has determined that financial and managerial factors are consistent with approval of the proposed representative office. Bank appears to have the experience and capacity to support the proposed office and has established controls and procedures for the proposed representative office to ensure compliance with U.S. law.

With respect to access to information on Bank's operations, the Board has reviewed the restrictions on disclosure in Turkey and has communicated with relevant government authorities about access to information. Bank and its parents have committed to make available to the Board such information on Bank and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law or otherwise, Bank and its parents have committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for disclosure of such information. In addition, subject to certain conditions, Bank's home country supervisors may share information on Bank's operations with other supervisors, including the Board. In light of these

commitments and other facts of record, and subject to the conditions described below, the Board concludes that Bank has provided adequate assurances of access to any necessary information that the Board may request.

On the basis of all the facts of record, and subject to the commitments made by Bank and its parents and the terms and conditions set forth in this order, the Board has determined that Bank's application to establish a representative office should be, and hereby is, approved. If any restrictions on access to information on the operations or activities of Bank or any of its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require termination of any of Bank's direct or indirect activities in the United States. Approval of this application is also specifically conditioned on compliance by Bank and its parents with the commitments made in connection with this application and with the conditions in this order.<sup>6</sup> The commitments and conditions referred to above are conditions imposed in writing by the Board in connection with its decision, and may be enforced in proceedings under 12 U.S.C. § 1818 against Bank and its affiliates.

By order of the Board of Governors,<sup>7</sup> effective September 18, 2000.

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<sup>6</sup> The Board's authority to approve the establishment of the proposed representative office parallels the continuing authority of the State of New York to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the State of New York and its agent, the New York State Banking Department ("Department"), to license the proposed representative office of Bank in accordance with any terms or conditions that the Department may impose.

<sup>7</sup> Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Kelley and Gramlich. Absent and not voting: Governor Meyer.

(Signed)

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Robert deV. Frierson  
Associate Secretary of the Board